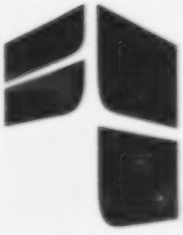

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Facilitating workplace solutions

British Columbia Buildings Corporation

ANNUAL REPORT 2005-06

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Note: On April 1, 2006, BCBC was replaced by Accommodation and Real Estate Services (ARES) a division of Shared Services BC within the Ministry of Labour and Citizens' Services.

For more information on ARES and to access the Annual Report visit the ARES/BCBC Web site at www.bcbc.bc.ca

British Columbia Cataloguing in Publication Data

British Columbia Buildings Corporation

Annual Report. — 1977/1978 — report year ends March 31.

ISSN 0702-0511 — Annual Report — British Columbia Buildings Corporation

1. British Columbia Buildings Corporation

2. British Columbia — Public Works — Periodicals

TA 27.B7A2 354'.711'0086068

2007-01300/

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Message from the Chair/Deputy Minister

Fiscal year 2005/06 was one of tremendous change for the BC Buildings Corporation (BCBC). On July 28, 2005, the Province announced its decision to transfer the functions of BCBC to the Ministry of Labour and Citizens' Services and wind up the operations of the Corporation. This decision followed on the completion of, and was informed by the results of, the BCBC 2004/05 Core Services Review. The addition of BCBC functions to other centralized shared services within the Ministry will enable the provision of a full range of business support services to government clients. It offers the potential for improvements in service access and quality, as well as cost advantages through reduced administrative and infrastructure costs. The 2004/05 Core Services Review provided a number of significant recommendations for changes in the way BCBC conducted business. Implementing these recommendations became the focus of the transition process that has been underway for the past eight months.

On July 28, 2005 I was appointed as the sole Director and Chair of the Board, by Government. I, in turn, appointed John Heath as the General Manager of BCBC to implement the recommendations of the 2004/05 Core Services Review and manage the transition to the Ministry.

From that day forward, BCBC management and staff were faced with the challenge of continuing to meet client needs, while addressing the myriad of complex issues and tasks associated with the transition. Significant attention needed to be devoted to developing implementation plans associated with specific Core Services Review recommendations, particularly as they related to the client base, service delivery and pricing models. I wish to commend all BCBC employees on the amazing amount of work they have accomplished over the eight months following the July announcement. The transition has been accomplished in a relatively seamless manner, with minimal disruption of ongoing operations, and in a manner that was respectful of each other and of their customers and suppliers.

Due to the significant changes in circumstances and priorities, which occurred as a result of the July announcement, many of the specific commitments set out in the BCBC 2005-2008 Service Plan were no longer relevant. Accordingly, this annual report does not track performance against the strategies and performance targets established in that Plan, but focuses instead on the key transition deliverables and performance highlights of the past fiscal year. These accomplishments reflect long hours and dedication on the part of the skilled employees of BCBC under the leadership of General Manager John Heath and his executive team. I thank them for their hard work and unwavering commitment.

This 2005/06 BCBC Annual Service Plan Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report. To the best of my knowledge, the information presented reflects the actual performance of BCBC for the 12 months ended March 31, 2006. All significant decisions, events and identified risks, as of March 31, 2006, have been considered in preparing this report.

Gordon Macatee
BCBC Board Chair and
Deputy Minister,
Ministry of Labour and Citizens' Services

Corporate Overview

Mandate

The British Columbia Buildings Corporation (BCBC) was established in 1977 as a Crown corporation and agent of the government.

BCBC's mandate as set out under Section 4 (1) of the former *British Columbia Buildings Corporation Act*, and amended under Section 2 of the *Miscellaneous Statutes Amendment Act (No.2), 1997* is as follows:

"The purpose of the Corporation is to serve as an agency of the government in providing land and buildings for accommodation of ministries of government, public bodies and agents, corporate or otherwise, of the government by lease or licence or any other arrangement for the use and occupation of the accommodation."

This included the following responsibilities:

- to provide cost-effective real estate and accommodation services to the public sector;
- to contribute to its customers' success by having a thorough understanding of its customers' needs and identifying related best value accommodation solutions; and,
- to fulfill an obligation to the shareholder to provide innovative stewardship of real property infrastructure.

With the exception of advisory services that are provided primarily by in-house professionals, most of BCBC services are delivered through contracts with private sector suppliers/consultants.

Scope of Operations

The Corporation manages, on behalf of the Province, a diverse real estate portfolio of leased, owned and maintained properties that extends throughout the province. At March 31, 2006 this portfolio included more than 19 million square feet (1.8 million square metres) of space. It included a wide variety of types of properties/facilities, ranging from the Vancouver Law Courts and Robson Square Complex to heritage buildings dating from the 1860s, and included office buildings, residential institutions, courthouses, correctional centres and other types of special purpose facilities.

BCBC's Customers

Approximately three-quarters of revenues come from services provided to provincial government ministry customers. The remaining one-quarter of revenues come from services provided to the broader public sector and others. Ministry customers are provided a full range of accommodation services, with terms/standards specified in the Accommodation Agreement and individual service level agreements. Services provided to non-ministry customers range from the full array of services to specific services as set out in agreements or memoranda of understanding (MOUs) for a specified term.

Office Locations

BCBC's services are provided to its customers from its Head Office in Victoria, as well as through regional centres in Vancouver and Kelowna, and field offices in Nanaimo, Kamloops and Prince George. BLJC WSI, the outsource provider of property management and related services on behalf of BCBC, has its head office in Victoria, regional offices in Vancouver, Victoria and Kamloops, and an Operations Centre in Kamloops to service BCBC and its other Western Canadian clients.

A Year in Transition

BCBC underwent a comprehensive Core Services (mandate) Review which completed in April 2005 with recommendations presented to government on a broad range of issues including:

- Governance model (Crown corporation or ministry model);
- Customer base;
- Range of service functions and use of private sector (alternate service delivery) for service delivery;
- Asset ownership model;
- Pricing model; and,
- Organizational structure.

The 2004/05 Core Services Review recommendations led to the July 28, 2005 announcement by the Province to redefine the business focus of BCBC, move its operations to the Ministry of Labour and Citizens' Services (LCS) and windup the BCBC corporate entity. The change process commenced on the date of the announcement with the replacement of the BCBC Board and CEO. Implementation of the Core Services Review recommendations was expected to take approximately 12 months. Overseeing the details of the implementation became the responsibility of the new Board and General Manager.

A new management structure was created to maintain appropriate focus on two priority short-term tasks; maintaining services to existing customers and effectively managing the transition. The CEO for Shared Services BC within LCS (appointed in July) worked closely with the General Manager to ensure the effective linkage of plans being prepared and implemented within BCBC with existing operations of Shared Services BC, LCS and government.

A Transition Steering Committee was established to manage transition activities, with project teams to address the following key transition work streams: Vision of the Future / Definition of Success; Human Resources; Customers; Finance; Portfolio of Properties and Buildings; Information Management and Technology; Legal; Services; and, Communications. A detailed Transition Action Plan with approximately 400 deliverables was developed to manage efforts associated with successful completion of the transition, including timelines and success measures for key deliverables for each team/work stream.

Over the 8 month period ending March 31, 2006, all major transition items were completed (85% of key deliverables). This included:

- **Passage of the *Public Agency Accommodation Act*** to affect the transfer of BCBC assets and liabilities to the Crown and dissolve the Corporation on April 1, 2006. The Act also repealed the BCBC Act and provided the Minister of Labour and Citizens' Services with powers to carry out functions previously carried out by BCBC.
  Note: March 29th title to the Royal BC Museum (RBCM) property in Victoria was transferred to the RBCM Corporation.
- **Creation of the Accommodation and Real Estate Services (ARES) division within Shared Services BC** of the Ministry of Labour and Citizens' Services. The ARES organizational structure was designed and implemented for the April 1st transition, under the leadership of two Assistant Deputy Ministers (Customer Services and Portfolio Services) reporting to the CEO of Shared Services BC.
- **Transition of staff into the BC Public Service/LCS/ARES** and successful resolution of exiting staff related issues. BCBC worked with the Public Service Agency (PSA) on ARES staffing, including position classifications, identification of the associated staff complement and offer of employment letters to staff, as well as on efforts to find placements for staff not moving over to ARES and "orientation to government" training. Some 96% (217) of BCBC employees receiving offers of employment accepted the offers. An Expression of Interest (EOI) process was also completed to fill key leadership positions (those substantially changed, vacant or new).

Year in Review

- **Approval of the ARES customer base,** which includes *mandated* customers required to use ARES as their shared services provider for accommodation and real estate services (mainly provincial government ministries); *voluntary* customers who may chose to use ARES services; and, *tenants* who occupy space not required by either mandated or voluntary customers. Agreement was also obtained for a formal customer base revision process to address desired changes to the approved customer base. Strategies were created and commenced to phase out services to federal, regional district and municipal government customers.
- **Approval of the new ARES pricing model**, which is essentially based on cost recovery. Implementation of the new model reduces the complexity of pricing and will lead to reduced charges for government as a whole. The 2006/07 Client Budget (accommodation budgets) is being restated to reflect direction on the treatment of changes in charges.
- **Transition of internal business policies, processes and systems into government.** This included: establishment of budget, assets and liabilities, procedures and billing protocols for elements of the new financial model; transition of relevant information technology elements (telephone, network connections, and payroll); completion of procurement and policies transition; and, determination of an insurance and risk management strategy and establishing a draft Memorandum of Understanding between ARES and the Provincial Risk Management Branch.
- **Launch of an Integrated Workplace Management System (IWMS) project** with an initial focus on the inventory management of owned and leased properties. Once fully implemented, the chosen vendor application (Tririga IWMS) will support the transformation of ARES processes including the integration of customer request, contract management, project, leasing, real estate and some financial and strategic portfolio management processes.
- **Increased engagement of the private sector** for project management and transactional accommodation planning functions. ARES involvement in project management will focus on a strategic advisory and oversight role. A Request for Qualifications for contracting out of transactional accommodation planning work and for pre-qualification of private firms to provide project management services for major projects has been prepared for issuance in early 2006/07.

A Post-Transition Action Plan has been created to highlight and manage approximately 50 transition activities which will require continued effort through fiscal 2006/07, including:

- Completion of customer exit strategies.
- Implementation of a service strategy for voluntary customers.
- Finalization of the pricing application and risk management model.
- Implementation of the Integrated Workplace Management System.
- Completion of integration of ARES business systems with LCS/ Corporate Accounting Services systems.
- Continuation of work with Client Panel on updating of the Accommodation Agreement.
- Completion of the review/updating of property ownership and disposal policy/practices.
- Review of additional opportunities for alternative service delivery.

A concerted effort has been made to involve employees in the transition work and to keep both employees and customers informed on the progress of the transition and the implications of the changes being introduced.

For customers: Communications with customers took the form of general advice provided through electronic mail; transition updates and information on impacts of changes provided to Client Panel and the ADM Corporate Services Committee; meetings with the provincial Shared Services Board of Directors; and, one-on-one discussions between account executives and individual customers. A Customer Forum took place in early May, which provided customers with the opportunity to learn about the new ARES shared services organization (including changes in the pricing model and service offerings and their impacts), ask questions and provide feedback.

For employees: A corporate-wide EOI process allowing employees to express interest in participating in transition activities resulted in: the creation of a 15-member Transition Advisory Committee and a 12-member BCBC Legacy Team; and, the recruitment of 25 employees to act as additional resources to the various Transition work stream teams. This enhanced engagement of employees in transition activities was complemented by ongoing communications efforts to keep staff informed of progress and issues relative to the transition. Monthly information forums were held for staff (in Victoria and Vancouver), in addition to numerous transition related emails and ongoing updates to a transition section established on the corporate intranet.

Operational Performance Highlights

During 2005/06 BCBC continued to fulfill its service delivery and asset stewardship responsibilities with minimal disruption, in spite of a need to devote significant resources to transition activities. This is demonstrated by the generally positive fiscal year operational results.

Customer Service/Satisfaction: Service delivery initiatives focused mainly on client ministries' business and support for existing business in the broader health and education sectors. New business development activity ceased. Along with continuing to provide routine accommodation services, BCBC was still able to react quickly, working with its service partners, when called upon to address immediate/urgent needs.

Customer satisfaction provides an indicator of customers' perception of service quality and value. This was tracked in 2005/06 through three types of surveys: annual customer and tenant surveys and monthly WSI Operations Centre caller/project satisfaction surveys.

The 2005/06 Customer Survey results were lower than 2004/05, with 57% of respondents indicating that they were satisfied or very satisfied with BCBC's overall performance during the past year (compared to 73% in 2004/05). The composite index score obtained for a group of service-related questions (at 69.4% of the rating scale) was comparable to last year's result (of 70%), but the percentage of favourable responses declined to 54% (from 58% in 2004/05). These results are lower than the Citizens' First 2005 benchmark (73%) for municipal and provincial public sector organizations.

The following themes relating to what BCBC/ARES could do to improve service emerged from respondents' comments: stabilize change/reduce uncertainties, reduce prices/fees; increase staff/resources; improve turn around times/ responsiveness and increase communications. In general customers wanted more information on the future state of ARES and how that would impact their costs and services, although there were still related decisions pending. Action plans are being developed and implemented to address responsiveness and communications concerns.

The 2005/06 Tenant Survey assessed tenants' satisfaction with their physical work environment and property management services provided by WSI. Tenant satisfaction results (at 66%) improved slightly over 2004/05. Monthly survey results on caller/project satisfaction with the WSI Operations Centre continued to average over 90%.

Leasing Activity: During 2005/06, 103 new leases (over 650K sq. ft.) and 205 lease renewals (over 1.2M sq. ft.) were negotiated at $1.8M below estimates. This compares to 89 new leases and 176 lease renewals negotiated in 2004/05. In addition, 76 lease terminations (over 425K sq. ft.) were negotiated, resulting in lease cost savings of $3.9M.

Project-related Activity: Project activity levels and revenues were higher in 2005/06 ($55.6M in project revenues) than 2004/05 ($45.1M). BCBC funded multi-year projects (valued at $86.7M) proceeded, with forecast expenditures to completion remaining within 0.6% of budget. Project development services were provided to

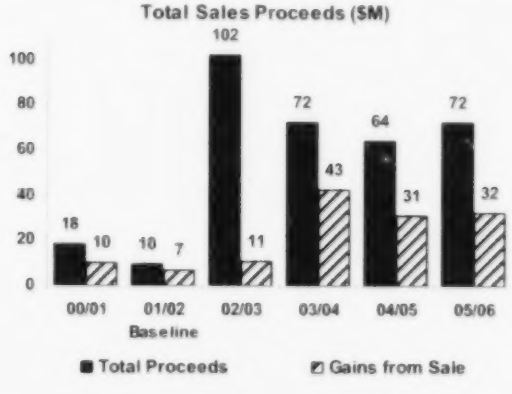
customers on 35 customer-funded projects (valued at over $235M).

Note: Project revenues predominantly involve private sector expenditures. In 2005/06 expenditures with the private sector increased to 93.3% of all corporate expenditures (compared to 91.6% in 2004/05).

WSI Contract Management: Fiscal 2005/06 was the second year of the five year property management outsourcing contract with Workplace Solutions Inc. (WSI). Regular WSI/BCBC joint meetings were held to address outstanding issues, general performance and opportunities for improvement, with a focus as well on customer feedback and documented action and follow-up activities. In addition, WSI performance and accomplishments was a standing item on Client Panel meeting agendas.

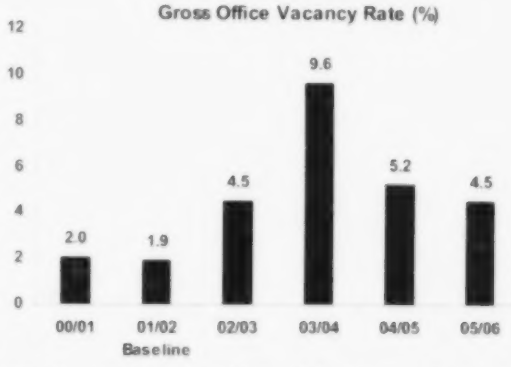
For 2005/06 performance was tracked against a set of 21 key performance indicators (KPIs) and performance targets, covering three performance categories (service delivery, financial management and business performance). Preliminary results provided by WSI indicate that overall KPI performance improved relative to 2004/05, with WSI either meeting or exceeding its performance targets for the majority of the KPIs.

Real Estate Activity: 2005/06 was the fourth consecutive year of significant property disposal activity, with 65 property sales, providing $72.4M in proceeds and associated gains of $27.9M (as well as $4.2M in deferred gains associated with 20 property sales in prior years).



Significant sales contributing to these results included: the Vancouver Island Technology Park ($20.2M proceeds and $3.9M gains), Vista House (group home) in Vancouver, a number of commercial properties (including, ICBC's Burnaby Motor Licensing Office, 411 Dunsmuir in Vancouver, 750 Pandora in Victoria, the Beaton building in Ft. St. John) and various highways yards.

Portfolio Management: During 2005/06 a building envelope study was completed on all owned properties. A program was also initiated to conduct condition assessments on the secure facilities of the Ministry of Public Safety and Solicitor General and draft assessments were completed for several facilities, with the remainder to be completed in the first quarter of 2006/07. Individual facility need assessments were also completed for the Royal BC Museum, Seymour and Selkirk properties in Victoria and some smaller properties.



Continuing lease expiries related to previous years' government restructuring and aggressive management of vacant space (lease terminations and backfilling of vacated space) reduced the gross office vacancy rate significantly from the historically high level rate at the end of 2003/04 (of 9.6%) to 4.5% at the end of the fiscal year (and compared to 5.2% in 2004/05).

At March 31, 2006 the BCBC gross office vacancy rate in the City of Victoria (at 5.0%) was almost identical to the market vacancy rate of 4.94%, and the Lower Mainland rate of 2.3% was significantly below the market rate of 11.4% (an average of five Lower Mainland cities). BCBC vacancy rates were significantly below market in all other major urban centres.

Energy Management: BCBC's Environmental Management System (EMS) was re-aligned during 2005/06 to conform to the updated ISO 14001:2004 Standard and to operationalize

Year in Review

BCBC's updated Environmental Stewardship policy, which now includes specific green building commitments that complement the ISO 14001 environmental management commitments. A re-registration audit of the updated EMS was carried out and recommended re-registration to the new Standard with no non-conformances. WSI was successful in obtaining ISO 14001 registration in April 2005 and achieved re-registration to the new Standard in March 2006.

The BCBC EMS calls for public reporting of its energy efficiency and greenhouse gas emissions. Accordingly, in June 2005 BCBC submitted its report for 2003 and 2004 to the Canadian Standards Association Greenhouse Gas Registry. In July 2005, the report received the Registry's GOLD level designation (posted on the Registry website: http://www.ghgregistries.ca/challenge).

Beginning in 2005, BLJC WSI took on exclusive responsibility for tracking BCBC/ARES' energy consumption using its RealEnergy accounting system, replacing BCBC's own energy accounting system. While fundamental differences between the two systems make it difficult to accurately compare energy performance in years 2004 and 2005, it would appear that there was no improvement in BCBC's overall energy efficiency during 2005. However, during the year, BCBC invested $730,000 in energy efficiency projects that are expected to contribute an estimated 0.6% reduction in the energy consumption beginning in 2006.

During 2005/06, BCBC continued to lead the Green Buildings BC program (a provincial initiative enabling the education and health care agencies to improve the energy efficiency of their new and existing buildings) and to take a leadership role in the development and implementation of green building targets for the province.

HR Management/Employee Satisfaction:
During 2005/06 HR management focused almost exclusively on transition-related human resource issues and deliverables, as described earlier.

2005/06 Employee Satisfaction survey results provide some indication of the success of efforts made to address employee concerns related to both the transition and its impacts on their work environment. Employee satisfaction results were slightly higher than in 2004/05, in terms of the percentage of favourable responses to:

- An overall satisfaction question (35% compared to 33% in 2004/05); and,
- An index of questions relating to productive engagement: alignment, capability, resources and motivation (52.5% compared to 50% last year).

These results are significantly lower than BCBC's historical satisfaction levels (63% in 2000) and the 2004/05 WorkCanada benchmark for public sector employees (62%). As in the past two years, results included a high percentage of "undecided/neutral" employees' responses (34% compared to the WorkCanada benchmark of 27%), likely reflecting employees' continuing uncertainty regarding the future.

Management Discussion and Analysis

Financial Performance

The Management Discussion and Analysis reports on the Corporation's financial performance and financial position. This discussion should be read in conjunction with the audited financial statements and related notes on pages 12 through 23. This discussion contains contextual information, along with statements regarding anticipated future business financial performance. It should be noted that such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ from plan.

Overview

The Corporation's 2005/06 net income of $54.1 million exceeded the budget of $53.0 million, by $1.1 million or 2 percent. Financial results were impacted by the following significant factors:

- Operating revenues increased from budget by $44.5 million or 12 percent, primarily due to higher-than-budgeted levels of customer demand for discretionary services and projects.
- Partially offsetting the revenue increase was an increase in operating expenses of $39.0 million, reflecting the service delivery expenses associated with this discretionary demand.
- Both operating revenues and expenses increased marginally from 2004/05, reflective of relatively stable government occupancy over the past year.
- Interest costs were reduced in 2005/06 as a result of debt retirements undertaken during the year.
- Gains on sale of $32.1 million were lower than budget by $1.4 million or 4 percent due to the deferral of specific property sales originally planned for 2005/06.
- Real estate assets decreased during the year by 7 percent ($51 million), reflecting BCBC's sales program and the transfer of the Royal BC Museum.

The following table provides a summary of BCBC's 2005/06 financial performance, compared to the 2004/05 actual results and the 2005/06 budget.

($ millions)	2004/05	2005/06		
	Actual	Budget	Actual	Variance
Operating Revenue	405.2	360.8	405.3	44.5
Operating Expenses	(362.5)*	(322.4)	(361.4)*	(39.0)
Income from Operations	42.7	38.5	43.9	5.4
Net Interest Expense	(23.2)	(19.0)	(19.2)	(0.2)
Gains on Sale	31.1	33.5	32.1	(1.4)
One-time Item	-	-	(2.7)**	(2.7)
Net Income	50.6	53.0	54.1	1.1
Real Estate Assets	672.2	679.6	621.6	58.0
Net Debt	251.1	199.5	254.4	(54.9)

* Includes corporate restructuring costs of $3.4 million (2004/05 - $6.5 million).
** Early retirement and termination expenses associated with transition.

Operating Revenues

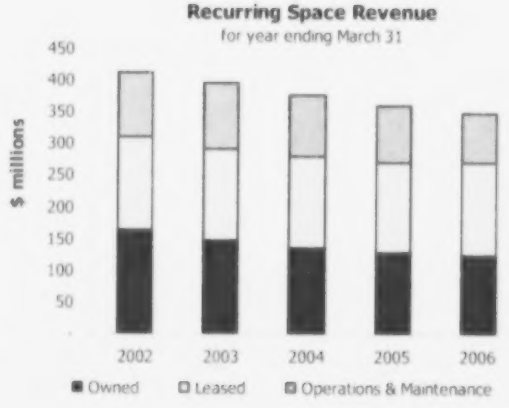
The Corporation's operating revenues are generated through the provision of real property and infrastructure services to the provincial government and the broader public sector. BCBC received 73% of its 2005/06 revenues from provincial government ministries, 16% from other provincial government entities, and the balance from other sources.

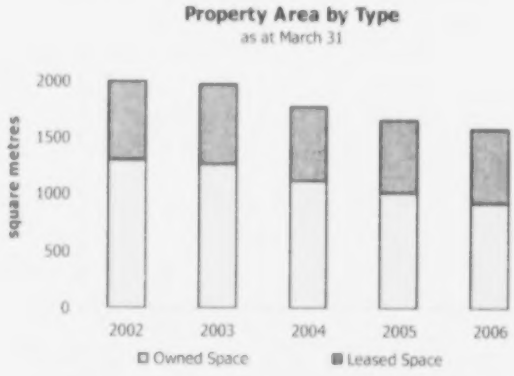
The Corporation's 2005/06 financial results are consistent with the lower level of provincial government recurring demand for accommodation and related services experienced last year following the successful completion of the government accommodation restructuring initiative in early 2004/05.

BCBC's recurring space-related revenues are generated via customer occupancy of properties leased or owned by BCBC. Operations and maintenance services are provided for these properties and are also often the primary service provided in customer-owned facilities to a number of customers in the broader public sector. A combination of factors has changed the dynamic of this revenue base over the past five years.

- Government's overall space requirements have decreased, due to program changes and overall downsizing. This reduction impacts both revenue and profitability levels.
- The ratio of leased to owned properties continues to increase, as BCBC disposes of property assets. This reduces BCBC's overall profitability, as the margin produced by leased space is significantly lower than that produced by owned space.
- In the last two years, BCBC has ceased providing a significant volume of operations and maintenance services in facilities owned by federal government customers. This created a corresponding reduction in revenue, and profitability was reduced by the administration fees for this service.

The following graphs illustrate the downward trend in space-related recurring revenue stream as a result of the above noted factors.





The revenue stream for discretionary projects and services is demand-driven and, thus, more volatile and difficult to predict year-by-year. The 2005/06 budget predicted lower customer demand levels than in 2004/05 due to the completion of government accommodation restructuring activity in early 2004/05. However, demand proved significant across all customer segments, with project revenue of $56 million exceeding the budget of $24 million by $32 million.

Operating Expenses

BCBC effectively managed operating expenses during 2005/06, with any significant increases corresponding directly to revenue increases, for example lease costs and client requested project costs.

In the latter part of the year, the primary goal was to effect the transition of BCBC to the Ministry of Labour and Citizens' Services while continuing to maintain customer service levels and manage the portfolio of assets. Every effort was made to eliminate corporate activities that did not contribute to this priority. These efforts resulted in an 8% decrease in general and administrative costs.

Operating expenses in 2005/06 included $3.4 million in corporate restructuring costs.

Debt and Debt Servicing

On April 1, 2006, the Corporation's long-term debt and sinking funds were transferred to the Provincial Treasury along with all cash and temporary investments. Given this situation, BCBC was directed by Provincial Treasury mid-way through the year to forgo both a planned sinking fund top-up and a re-investment. This resulted in:

- net debt levels increasing marginally during the year to $254 million at year-end, from $251 million in March 2005; and,
- the Corporation holding relatively high levels of cash and temporary investments at March 31, 2006 ($104 million as compared to a budgeted amount of $3.1 million).
  Note: *Cash balances were also affected by direction to not make a dividend payment to the Province in 2005/06.*

Debt servicing costs decreased from 2004/05 levels, due to the positive impact of debt retirements carried out early in the second quarter. The weighted average interest rate on debt did not change during the year, as BCBC's debt portfolio comprises entirely fixed-rate instruments.

Property Disposals

Significant property disposal activity continued in 2005/06. Reported gains on sale of $32.1 million were slightly below the budgeted amount of $33.5 million. These included net gains of $27.9 million on the sale of 65 properties, as well as $4.2 million in deferred gains associated with prior years' sales. Information on specific sales is detailed on page 6 as part of the "Year in Review."

Real Estate Assets

The net book value of the Corporation's real estate assets decreased by $50 million during the year. Significant asset dispositions included the sale of the Vancouver Island Technology Park (net book value of $16.3 million) and the Royal BC Museum (net book value of $11.3 million), which, at the direction of the Province of British Columbia, was sold for $1.00.

Dispositions were offset to some extent by capital expenditures, including completion of the first phase of a three-year major capital upgrade project at the Robson Square property in downtown Vancouver (total estimated cost $21 million). Consistent with the last two years, the Corporation's capital expenditure program was focused almost exclusively on upgrade and alteration projects to existing property assets. Expenditures of $25 million were significantly below the original planned level of $63 million, primarily due to the deferral of customer-initiated projects in special purpose properties.

Key Financial and Operational Comparatives

(for the years ended March 31)

Financial	2006	2005	2004	2003	2002
Income Statement Related ($ millions)					
Gross Revenue	405.3	405.2	464.6	461.2	458.8
Corporate General & Administrative (G&A) costs	12.7	13.8	17.4	17.9	20.1
- as % of Revenue [1]	3.1	3.4	3.7	3.9	4.4
Corporate Operating Margin (%)	10.8	10.5	12.8	16.0	16.6
Net Income before Gains & Other Items	24.7 [2]	19.4 [2]	30.4	36.9	36.1
Gains on Property Sales	32.1	31.1	42.6	10.5	6.6
Total Gross Proceeds from Property Sales	72.4	64.0	71.9	101.7	9.7
Net Income	54.1	50.6	46.5	52.1	37.3
Balance Sheet Related ($ millions)					
Total Assets	801.7	762.7	829.1	918.1	991.8
Net Debt	254.4	251.1	327.7	463.1	601.8
Operational					
Properties (m^2) - owned	922,826	1,016,383	1,122,263	1,267,193	1,303,612
- leased	660,863	648,012	657,372	701,369	690,552
- maintained	195,562 [3]	387,113	408,578	418,623	386,621
Office vacancy rate (%)	4.5	5.2	9.6	4.5	1.9
Energy intensity (MJ/ m^2) [4]	1,187	1,195	1,199	1,205	1,229
Rate of employee absenteeism (%)	3.4	3.6	2.8	2.9	2.6
Number of employees [5]	237	318	732	756	850
Customer satisfaction index rating (%)	69.4	70.0	62.7	66.0	-

Notes: 1. Includes costs associated with internal support functions (For 2005/06 this includes communications, human resources, corporate controller, information systems, strategic management, general counsel, internal audit and the CEO/General Manager's office).

2. Includes $3.4 million in corporate restructuring costs in 2005/06 and $6.5 million in 2004/05.

3. The reduction in maintained space mainly reflects the ending of the service contract with Public Works & Government Services Canada.

4. By calendar year (e.g., results for 2005/06 are for the 2005 calendar year). **Note:** Beginning in 2005 BLJC WSI took on exclusive responsibility for tracking BCBC/ARES energy consumption using its RealEnergy accounting system. Differences between the two systems make it difficult to accurately compare 2005 results with previous years' results.

5. Includes temporary and auxiliary staff.

Management's Report

The financial statements of British Columbia Buildings Corporation (BCBC) have been prepared by the management of the Corporation, which is responsible for their consistency, integrity and objectivity. The statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments based on currently available information. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains and relies on a system of internal controls designed to provide reasonable assurance that the Corporation's assets are safeguarded, transactions are properly authorized and recorded, and that reliable and relevant financial information is produced. The Corporation's internal auditors independently review and evaluate these controls.

The external auditors have audited the financial statements, which have been approved by the Deputy Minister of Labour and Citizens' Services (sole Director and Chair of BCBC up to and including March 31, 2006).

Michael MacDougall,
Chief Executive Officer
Shared Services BC

Patricia Marsh, CA
Executive Director, Business Services and
Chief Financial Officer
Accommodation and Real Estate Services
Shared Services BC

May 5, 2006

Auditors' Report

To the Board of Directors of
British Columbia Buildings Corporation

We have audited the balance sheet of British Columbia Buildings Corporation as at March 31, 2006 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

May 5, 2006

Balance Sheet

$ 000s	March 31 2006	March 31 2005
ASSETS		
Real estate investments		
Income-producing properties (note 3)	596,079	641,754
Income-producing properties under construction (note 4)	10,907	11,002
Properties held for sale or development (note 5)	14,588	19,426
	621,574	672,182
Corporate properties and equipment (note 6)	3,943	6,058
Unamortized debt discount and issue expenses	6,969	7,297
Other assets (note 7)	169,205	77,205
	801,691	**762,742**
LIABILITIES		
Long-term debt (note 8)	254,434	251,128
Other liabilities (note 9)	113,014	120,113
	367,448	371,241
EQUITY		
Contributed surplus (note 10)	41,508	52,832
Retained earnings	392,735	338,669
	801,691	**762,742**

Subsequent event (note 1)
Commitments (note 11)

See accompanying notes to the financial statements.

On Behalf of the Board:

Gordon Macatee, BCBC Chair and
Deputy Minister of Labour and Citizens' Services

Cheryl Wenezenki-Yolland
Executive Financial Officer and
Assistant Deputy Minister
Corporate and Ministry Support Services
Ministry of Labour and Citizens' Services

Statement of Income and Retained Earnings

$ 000s	Year Ended March 31	
	2006	2005
REVENUES		
Rentals	346,410	360,016
Other income	58,929	45,195
	405,339	405,211
EXPENSES		
Lease costs	139,056	137,587
Operations and maintenance	86,113	96,839
Amortization	29,949	32,238
Client requested projects	54,196	43,900
Property taxes and grants	18,336	18,941
Energy	21,117	19,309
General and administrative	12,677	13,776
	361,444	362,590
INCOME FROM OPERATIONS	**43,895**	**42,621**
Interest expense (note 12)	(19,202)	(23,190)
Gains on sale of properties	32,107	31,123
INCOME BEFORE OTHER ITEM	**56,800**	**50,554**
Early retirements and terminations (note 1)	(2,734)	-
NET INCOME	**54,066**	**50,554**
Retained earnings, beginning of year	338,669	307,704
Dividend	-	(19,589)
RETAINED EARNINGS, END OF YEAR	**392,735**	**338,669**

See accompanying notes to the financial statements.

Statement of Cash Flows

$ 000s	Year Ended March 31 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	54,066	50,554
Non-cash items		
Amortization of capital assets and other amounts	30,276	32,566
Provision for asset retirement	154	147
Write-down of vacated properties and other assets	-	457
Gains on sale of properties	(32,107)	(31,123)
Other assets and liabilities, net change	(19,840)	17,590
	32,549	70,191
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate investments	(20,427)	(5,957)
Corporate properties and equipment	(971)	(1,264)
Net proceeds from sale of properties	68,189	59,776
	46,791	52,555
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repayments	(50,000)	-
Decrease (increase) in sinking funds	50,960	(69,524)
Decrease in short-term debt	-	(7,000)
Dividends paid	-	(37,580)
	960	(114,104)
INCREASE IN CASH AND CASH EQUIVALENTS	**80,300**	**8,642**
Cash and cash equivalents, beginning of year	24,021	15,379
CASH AND CASH EQUIVALENTS, END OF YEAR (note 14)	**104,321**	**24,021**

See accompanying notes to the financial statements.

Notes to Financial Statements

March 31, 2006 (Tabular amounts in $ 000s)

1. Statement of Purpose and Subsequent Event

British Columbia Buildings Corporation (the Corporation), established in 1977 as a Crown Corporation of the Province of British Columbia through the enactment of the British Columbia Buildings Corporation Act, has a mandate to serve as an agency of the Crown in providing real property and accommodation infrastructure services to the provincial government and the broader public sector. Corporate and customer accountability is achieved by charging market based prices for services rendered, and using private sector management principles. During the year the Corporation received 73% (2005 - 74%) of its revenues from provincial government ministries, 16% (2005 – 15%) from other provincial government entities, with the balance from other sources.

On March 20, 2006, legislation changing the status of the Corporation from a Crown Corporation to a division of the Ministry of Labour and Citizens' Services, was passed. The effective date of this change was April 1, 2006. The transition to government resulted in early retirements and terminations that occurred prior to March 31, 2006 and the expense of $2,734,000 has been shown separately on the Statement of Income and Retained Earnings. It is not practicable to estimate the financial effect of the transition to government in addition to the early retirements and terminations reported.

2. Accounting Policies

The financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles. The Corporation's significant accounting policies are as follows:

(a) Real Estate Investments and Corporate Properties and Equipment

Real estate investments and corporate properties and equipment are recorded at cost less accumulated amortization. In addition to land and direct costs, amounts capitalized to real estate investments during development and construction include property taxes and the applicable portion of both interest on general borrowings and general and administrative expenses. Capitalized costs do not exceed estimated future recoveries for income-producing properties and estimated realizable value for properties held for development.

(b) Temporary Investments

Temporary investments represent short-term funds administered by the Province of British Columbia. These investments are recorded at cost, which approximates market.

(c) Amortization

Real estate investments and corporate properties and equipment are amortized on an individual basis by the straight-line method over their estimated useful lives or lease terms. Amortization is prorated by month in the year of acquisition or disposal.

The estimated useful lives or lease terms of income-producing and corporate properties are from five to fifty years. The estimated useful lives of all other assets are from three to ten years.

(d) Income Taxes

The Corporation is exempt from federal and provincial income taxes.

(e) Amortization of Debt Discount and Issue Expenses

Debt discount and issue expenses are amortized on a straight-line basis, both over the terms of the applicable debt.

(f) Related Party Transactions

The Corporation is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, as well as other transactions in which provincial government intervention is a component, are generally considered to be in the normal course of operations and are recorded at the exchange amount. This exchange amount approximates market with one exception described below.

During the year, the Corporation sold a property with a fair value of $58,421,000 and a net book value of $11,324,000 to the Royal British Columbia Museum Corporation. At the direction of the Province of British Columbia, the sale price was $1. The transaction has been recorded in these financial statements at the carrying amount of the property. The difference between the cash received and the carrying amount has been recorded as a reduction to contributed surplus (note 10).

(g) Asset Retirement Obligations

The fair value of asset retirement obligations are recorded as liabilities when incurred and the related assets are increased by the amount of these liabilities. Over time, the liabilities are accreted for the change in their present value and the initial capitalized costs are depreciated over the useful lives of the related assets.

The Corporation's asset retirement obligations are the obligations associated with the retirement of its building property assets. The following is a reconciliation of the liability for asset retirement obligations:

	2006	2005
Asset retirement liability, beginning of year	3,365	3,218
Decrease in anticipated cash flow	(401)	-
Accretion expense	154	147
Asset retirement liability, end of year	3,118	3,365

The accretion expense is included in interest expense. The undiscounted estimated cash flows required to settle the obligations range from $3,400,000 to $3,800,000 during the period 2007 to 2013. The cash flows are discounted using a credit adjusted risk-free rate of 4.48% (2005 – 4.48%).

Other assumptions used by management to determine the carrying amount of the asset retirement obligations are: construction costs based upon current market conditions; market risk premium for unforeseeable circumstances; and the rate of inflation over the expected years to settlement.

(h) Environmental Expenditures and Liabilities

Under the current environmental legislation and the Corporation's standard accommodation agreement with customers, responsibility for site cleanup rests with the polluter. Environmental cleanup costs are recoverable from customers. These recoveries are included in other income.

Environmental expenditures incurred as a result of the ongoing business activities of the Corporation are expensed or capitalized as appropriate.

(i) Deferred Gains on Sinking Funds

The Corporation's sinking funds are administered by the British Columbia Investment Management Corporation, which has invested the funds in various long-term financial instruments. During the year, the Corporation became aware that certain gains arising from previous sales had been placed in a reserve to offset possible future losses rather than being distributed to the individual sinking funds. The Corporation requested that this policy be reversed and, as a result, gains of $4,761,000 were distributed. The Corporation allocated this amount to the individual sinking funds in proportion to their respective market values and amortized the gains, on a straight-line basis, over the remaining lives of the related long-term debt issues. As a result, $2,416,000 was amortized during the current year and $2,345,000 deferred to future years (note 8).

(j) Accounting Estimates

Financial statements, by their nature, contain estimates and are subject to measurement uncertainty. Accounts receivable are evaluated as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for amortization of capital assets and deferred charges are based on estimates of the useful life of these assets. The effect on the financial statements of changes in such estimates in future periods is not anticipated to be significant.

3. Income-Producing Properties

	2006	2005
Net book value:		
Cost	1,079,127	1,141,274
Accumulated amortization	(483,048)	(499,520)
	596,079	641,754
Activity:		
Net book value, beginning of year	641,754	680,190
Properties transferred from income-producing properties under construction	23,476	8,792
Disposals, net	(42,214)	(18,397)
Amortization expense	(26,937)	(28,831)
Net book value, end of year	596,079	641,754

4. Income-Producing Properties Under Construction

	2006	2005
Balance, beginning of year	11,002	14,023
Direct development and construction costs	21,279	4,245
Capitalization of:		
Interest	206	200
General and administrative expenses	1,896	1,326
Cost of properties completed and transferred to income-producing properties	(23,476)	(8,792)
Balance, end of year	10,907	11,002

5. Properties Held For Sale or Development

	2006	2005
Balance, beginning of year	19,426	20,123
Capitalization of interest and property tax	151	185
Disposals, net	(4,989)	(882)
Balance, end of year	14,588	19,426

6. Corporate Properties and Equipment

	2006	2005
Cost:		
Office and data processing equipment	26,655	25,852
Corporate properties and leasehold improvements	1,589	2,968
Vehicles	-	85
	28,244	28,905
Accumulated amortization	(24,301)	(22,847)
	3,943	6,058

7. Other Assets

	2006	2005
Cash	16,290	971
Temporary investments	88,031	23,050
Accounts receivable:		
Short term - Ministry of Finance (note 13)	2,517	4,407
- Other provincial ministries and entities	24,427	17,756
- Other	9,147	17,392
Long term - Provincial ministries and entities	1,202	1,383
- Other	12,941	10,143
Prepaid expenses	14,650	2,103
	169,205	77,205

8. Long-Term Debt

	2006	2005
Debentures payable to the Province of British Columbia		
Various issues at an average effective interest rate of 7.50% (2005 – 7.39%) maturing at various times to 2029 (2005 - 2029)	404,512	454,512
Sinking Funds on deposit with the Province of British Columbia	(152,423)	(203,384)
Deferred gains on sinking funds	2,345	-
	254,434	251,128

At March 31, 2006, the coupon rates on the long-term debt ranged from 5.70% to 10.60% (2005 - 5.70% to 10.60%).

On April 1, 2006 the long-term debt and sinking funds were transferred to the Provincial Treasury.

9. Other Liabilities

	2006	2005
Accounts payable and accrued liabilities	54,573	48,296
Holdbacks	7,735	11,282
Accrued interest payable – Province of British Columbia	6,029	6,716
Deferred revenue	12,194	21,920
Deferred gains on sale of properties	32,483	31,899
	113,014	120,113

10. Contributed Surplus

	2006	2005
Balance, beginning of year	52,832	52,832
Related party transaction – Transfer of Royal British Columbia Museum (note 2(f))	(11,324)	-
Balance, end of year	41,508	52,832

11. Commitments

The Corporation estimates that the cost to complete projects under construction at March 31, 2006 will be $47,850,000 of which $27,438,000 has been committed.

The Corporation has entered into leases with third parties to provide space for customers and corporate operations for varying periods up to the year 2023 at a total aggregate net rental of approximately $562,717,000. Most lease terms are from five to ten years and include renewal options.

Minimum lease payments which will be charged to operations in subsequent years for leases committed at March 31, 2006:

2006/07	118,058
2007/08	102,769
2008/09	87,880
2009/10	68,399
2010/11	45,975
Thereafter	139,636

The Corporation had outstanding letters of credit totaling $551,000 at March 31, 2006 to guarantee performance on various projects.

12. Interest Expense

	2006	2005
Interest on long-term debt	30,859	33,015
Other interest expense	1,570	726
Amortization of debt discount and issue expenses	328	328
Sinking fund and other interest earnings	(12,897)	(9,901)
Interest capitalized	(658)	(978)
	19,202	23,190

13. Government Accommodation Restructuring

During 2002/03 and 2003/04 many provincial government ministries implemented significant program changes with associated impacts on related accommodation requirements. Government established a centralized fund for certain costs associated with the accommodation restructuring, over the 2002/03 and 2003/04 fiscal years. During the year, the Corporation invoiced $3,631,000 (2005 - $9,259,000) to the fund for costs associated with

this accommodation restructuring. At March 31, 2006 $2,517,000 (2005 - $4,407,000) is included in accounts receivable (note 7).

14. Cash and Cash Equivalents

	2006	2005
Cash and bank indebtedness	16,290	971
Temporary investments	88,031	23,050
Total cash and cash equivalents	104,321	24,021

15. Employees' Benefit Plans

The Corporation and its employees contribute to the Public Service Pension Plan (the plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer, contributory pension plan. Basic pension benefits are defined. The plan has approximately 51,000 active and 30,000 retired plan members. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2005, indicated an unfunded liability of $767,000,000 for basic pension benefits. The next evaluation will be as at March 31, 2008 with results available in 2009. The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan by the Corporation totaled $1,482,000 (2005 - $1,665,000) during the year.

In addition, employees are entitled to specific retirement benefits as provided for under the collective agreement and terms of employment. The Corporation accrues the liability for the future obligation for these benefits as the employees render the services necessary to earn the benefit. During the year, an expenditure of $89,000 (2005 - $396,000) was recognized with respect to these retirement benefits.

16. Risk Management

(a) Interest Rate Risk

In conjunction with the Ministry of Finance (the Corporation's fiscal agent), the Corporation may enter into interest rate agreements to manage its exposure on debt instruments. The terms of these instruments are disclosed in note 8.

(b) Credit Risk

The Corporation grants credit to its customers, the majority of whom (note 1) are Province of British Columbia entities. Management feels that any risk associated with such a concentration of credit is offset by the fiscal stability of these clients.

(c) Fair Value of Financial Instruments

The carrying amounts of financial instruments, other than long-term debt, included in the balance sheet approximate their fair value, due to their short-term nature. The fair value of the Corporation's long-term debt, net of sinking funds, at March 31, 2006 was $336,190,000 (2005 - $323,371,000). The fair value of the long-term debt has been estimated based on current market rates for long-term debt with similar terms and conditions.

Accommodation Agreement

The Accommodation Agreement provides the details of the current technical/operational aspects of the business relationship between BCBC/ARES and its mandated customers/clients. It details the basic terms and conditions of tenancy, setting out BCBC/ARES and customer responsibilities and details of pricing application with respect to base rent, tenant improvements, trade equipment, minor client requests, consulting services, operating costs and administration. The Agreement will be updated in consultation with Client Panel to reflect the new ARES pricing model and application.

Alternative Service Delivery (ASD)

Alternative service delivery refers to the range of methods by which BCBC may manage service delivery to its customers. The term is typically used when considering the strategies that can be employed to change either the way a service is being delivered or service demand is managed. The continuum of alternate service delivery strategies include, but are not limited to, shared services, co-sourcing, public-private partnerships (P3s), contracting out, outsourcing, non-asset-related strategies (e.g., eliminating or reducing demand for a particular service) or existing asset strategies (e.g., using existing assets more intensively rather than expanding capacity).

Client Panel

Client Panel is a committee composed of representatives from customers (facility managers/directors), BCBC/ARES (management and/or functional experts) and Treasury Board Staff. It provides a forum for review of accommodation-related issues and information-sharing. It is co-chaired by a BCBC/ARES and a customer representative.

High Performance (Green) Buildings

High performance (green) buildings are buildings or facilities that are designed to be environmentally sustainable. They offer superior economic, environmental and social benefits, including: lower operating costs (energy, water and maintenance), enhanced indoor work environments and efficient use of resources (energy, water and materials).

Integrated Workplace Management System (IWMS)

This is a packaged software application that integrates and synchronizes all of the internal business processes and data related to the management of facilities, from space planning and project management through operations and maintenance, to transaction management and lease administration.

ISO 14001

ISO 14001 is an internationally recognized standard stating the requirements for an organization to develop and implement an Environmental Management System (EMS). It is intended to establish and assess the effectiveness of an organization's ability to develop and meet a defined policy and objectives related to the environmental impact of its business activities. Registration to the standard requires auditing by an independent third party.

Shared Services

Shared services entail the sharing and leveraging of resources, people and information to improve cost effectiveness and service quality. It involves bringing together functions that are frequently duplicated across divisions, subsidiaries or operating units and offering these services more efficiently and at a lower cost, through a shared services centre.

Stewardship

The term, "stewardship" encompasses the preservation and enhancement of the assets and resources that have been entrusted to BCBC.

BRITISH COLUMBIA

The Best Place on Earth

British Columbia Buildings Corporation
2005-06 Annual Report

This entire report, in accordance with British Columbia Buildings Corporation environmental practices, is printed on paper that is elemental-chlorine free, acid free and is both recycled and recyclable.

Printed in British Columbia, Canada.